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July 12, 2017

Honorable Ron Menor, Chair and Presiding Officer
Honolulu City Council
Honolulu Hale, Council Chambers
Honolulu, Hawaii 96813

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Dear Chair Menor and Council members,

Subject: Testimony on Bill No. 58, Establishing an Affordable Housing Requirement

My name is Gladys Quinto Marrone, CEO of the Building Industry Association of Hawaii (BIA-Hawaii). Chartered in 1955, BIA-Hawaii is a professional trade organization affiliated with the National Association of Home Builders, representing the building industry and its associates. BIA-Hawaii takes a leadership role in unifying and promoting the interests of the industry to enhance the quality of life for the people of Hawaii.

We very much appreciate the work and dedication of Mayor Caldwell and his administration on making affordable housing a priority and for including BIA-Hawaii and our members in this very important discussion and to provide input on the Mayor's affordable housing strategy.

Our industry is keenly aware of the need to produce more housing units because more housing makes housing more affordable. Our current crisis of a lack of housing impacts our ability to function as a community and develop our economy. Over the past two years, BIA-Hawaii convened our "Houseless in Honolulu" Housing Summit to raise awareness of one of Hawaii's most pressing issues - home affordability. We have focused on the challenges employers face due to the lack of housing and, at our most recent Summit, "Still Houseless in Honolulu," we focused on increasing the supply of housing at all price points.

Our housing events illustrated how the lack of housing impacts us a community. When potential professionals/employees cannot find houses they can afford, they will choose not to come to Hawaii. Furthermore, stratospheric home prices have forced residents to leave to more affordable markets.

The bottom line is we need to build our way out of this crisis by increasing the supply of housing at all price points. With the Oahu median home price now at \$795,000, the repercussions are having a major impact on Honolulu's economy. The Department of Business, Economic Development and Tourism forecasted that over 50,000 new housing units are needed Statewide, 25,847 units in Honolulu. (DBEDT Report—Measuring Housing Demand in Hawaii, 2015-2025).

We believe that in order to address the current "Housing Crisis," a seismic shift in the focus of how government views housing development must occur and move from our current reactionary or regulatory stance to a more proactive or production-oriented" stance.

For example, the City and County of Honolulu could adopt a goal of approving an average of 2,500 new residential units each year over the next 10-year period to address the projected 25,847 unit demand. Over the last couple of years, the number of building permits issued for new single-family residential construction has been between under 900 units per year. The City might consider creating opportunities for new housing production by investing in increasing infrastructure capacity in areas identified for future growth or density. As capacity becomes available, up-zone properties to allow for higher density in accordance with areas planned for growth. Creating opportunities for building more housing, versus imposing inclusionary zoning requirements, will yield the desired outcome of more affordable housing.

BIA-Hawaii has expressed concerns that the overall approach proposed in the Mayor's strategy will not result in increasing the supply of housing. Focusing on the affordable housing segment of the market by tinkering with the existing exclusionary zoning requirements at the City will do little to increase the inventory of workforce housing on Oahu.

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The existing inclusionary zoning requirements which have been imposed on new residential developments for decades, we firmly believe, has caused the overall lack of supply of housing and the median prices of a single-family home upwards of \$700,000 we are experiencing today. This belief is validated by the University of Hawaii Economic Research Organization (UHRO) in their report on inclusionary zoning which states, "Inclusionary zoning policies have failed in other jurisdictions, and are failing on Oahu. Inclusionary Zoning reduces the number of "affordable" housing units and raises the prices and reduces the quantity of "market priced" housing units."

Creating Opportunities for More Housing

For Sale:

Land, material, and labor costs are generally outside of developer control. That being the case, what can government do to "incentivize" the construction of more housing units? In most instances, developers are able to build new housing in the 80% to 140% AMI income range (i.e. Workforce Housing) under current regulations and market conditions. Construction of units below 80% AMI (i.e. Low Income Housing), will require some type of government assistance, thru providing entitled government land, providing direct government funding, or a little bit of both. To incentivize the construction of more units in the 80% to 140% AMI, government could do one or more of the following:

1. Provide free access to existing infrastructure (sewer) capacity;
2. Waive or reduce all government connection fees;
3. Waive or reduce park dedication fees;
4. Waive or reduce any other infrastructure or public facilities assessment or impact fees (i.e. DOE School Impact Fees).
5. Provide for greater density to spread development cost around more units;

For construction of unit priced above 140% AMI, the city should consider assessing fees to access existing infrastructure capacity, with fees increasing as the price of the units increase. These fees could then be reinvested in building more infrastructure capacity or providing subsidies for the below 80% AMI.

Rentals:

Rental units need to be analyzed differently. Similar to for sale units, land, material, and labor costs are outside of most developer control. That being the case, the cost to construct rental units is no different from the cost to construct fee simple sale units. From a developer's perspective, rental units have a longer payback and require active property management. From the renter/buyer perspective, it is really a question of renting a unit and not building any equity or buying a similar priced unit with a mortgage about the same as monthly rent, but building equity over time.

In the foreseeable future, any significant increase in the number of new rental housing units will require use of government land.

Keeping Housing Affordable

Government imposed restrictions on units to keep them affordable generally result in the owners not being able to recognize any equity, or enough equity (shared appreciation), to step up to a larger unit as their income improves.

It is ironic that the only reason to consider government intervention in "keeping units affordable" is primarily due to government restrictions on overall development. If the overall supply of housing units were allowed to be increased at all price points, buyers/consumers would have a choice based on product type and location.

Government intervention in the market place usually does not have positive results.

How to Partner to Build More Housing

BIA Hawaii believes that in order for a partnership to work, both parties need to agree on a common outcome. We have been a strong advocate for this Mayor, and government in general, to set PRODUCTION GOALS to help build us out of our current housing crisis. We have members who focus on specific price points in the housing market. The question is not if developers are willing to build but how can government create opportunities for development of housing at all price points?

We appreciate the opportunity to provide our comments on this bill.